

333-6-1
O.M.

January 7, 1930

Mr. Geo. L. Harrison,
Chairman, Open Market Investment Committee,
Federal Reserve Bank of New York,
New York City.

My dear Mr. Harrison:

At the time that we discontinued participation in the open market purchases of Governments we were somewhat influenced by our then reserve position, though that was by no means the principal consideration. Inasmuch as, as we anticipated, we have had considerable liquidation resulting in a reserve position which perhaps is at the top of the list, that consideration no longer obtains.

We are not, however, in entire sympathy with the course of open market policy. Considering the argument in your letter of November 27th, supplemented by what you said on the same subject at the last conference — which was, briefly, that inasmuch as your investigation showed the chart line representing System rediscounts and the line showing current rates (in New York) coinciding, it was desirable, in order to keep the cost of credit at a reasonable level, to have one-half of the total of Federal Reserve credit outstanding represented by rediscounts and the other half by open market purchases — it appears to us that the figures now indicate that, inasmuch as rediscounts approximate forty per cent. and open market purchases approximate sixty per cent., it might be held that about \$150,000,000 too much open market credit was outstanding; in other words, that, in accordance with this view, we should have \$750,000,000 discounts and \$750,000,000 in bills and securities, instead of, as we have, \$300,000,000 discounts and \$900,000,000 invested. *→S

It is, perhaps, futile to try to apply the word artificial to credit conditions, but it appears to us that the policy pursued has resulted in an artificial condition, and as we are not in sympathy with the view that artificial conditions should be created for the purpose of promoting a bond market, we are still reluctant to go along. Of course, we realize that in the interim there has been considerable export or earmarking of gold, and we believe it is desirable to tentatively or partially offset such operations by increasing Federal Reserve credit. We cannot see that that policy can be continuously ✓

Encl. with letter 1-9-30

followed without unfavorable results. We are unable to see that the 1927 experiment, now quite generally, we believe, admitted to have been disastrous, contributed very materially to the welfare of this country by providing or supporting a market for our exports.

Our views may be provincial, but we have no pride of opinion, are quite willing to be convinced, and will be entirely reconciled to changing our views when convinced that they are wrong. We do, however, believe that the purpose of the Federal Reserve System is to provide and assure adequate finance for trade (inclusive term) at a cost conducive to stability and such expansion as may be, and that our policies should be formulated to that end without being too much influenced, favorably or unfavorably, by the gyrations of the stock market or the desire to create or promote a bond market.

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Yours very truly,

Governor